ASX Announcement
2021 Half Year Results

24 August 2021

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Half year profit buoyed by operational performance and strengthening market conditions

Oil Search today announced a strong half year result for the period ended 30 June 2021, posting a net profit after tax (NPAT) of US$139.0m and the highest free cashflow since the 2018 PNG earthquake. The Board declared an interim dividend of US3.3 cents per share, representing a payout of 49% of NPAT, in line with Oil Search's dividend policy.

Oil Search's Acting Chief Executive Officer, Peter Fredricson, said the result pointed to the resilient operational performance from within the business as well as recovering conditions in the market.

"Our half year result speaks to the sustained and focused efforts of our people across every part of the business. Importantly, it demonstrates that we are successfully executing on our strategy, paving a clear path for the delivery of expansion and growth projects through the remainder of 2021 and into 2022."

1H21 Financial Results (US$ millions unless noted)	**1H21**	**1H20**	**Change**
Revenue	667.7	625.6	7%
EBITDAX[1,2]	**488.8**	**452.8**	**8%**
Core EBIT[1,3]	278.8	148.1	88%
Core net profit / (loss) after tax[1,4]	**139.0**	**24.7**	**463%**
Net profit / (loss) after tax	**139.0**	**(266.2)**	**nm**
Key metrics			
Basic earnings per share (US cents)	6.7	(15.0)	nm
Interim dividend per share (US cents)	3.3	-	nm
Capital management key metrics	**30 Jun 21**	**31 Dec 20**	
Net debt	2,122.2	2,376.2	(11)%
Free cash flow[1,5]	284.3	12.8	nm
Gearing[6]	27.2%	29.9%	(9)%

1. This is non-IFRS financial information that has been presented to provide a more meaningful understanding of Oil Search's financial performance and has been derived from the financial statements which have been subject to review by the Company's auditor.
2. Earnings before interest, tax, depreciation, amortisation, impairment and exploration expensed.
3. Earnings before interest and tax, and for period ended 30 June 2020 excludes the impairment expense.
4. Net profit / (loss) after tax and for period ended 30 June 2020 excludes the impairment expense and derecognition of net deferred tax assets.
5. Net cash from operating activities less investing cash flows. Comparative period free cash flow is for full year ended 31 December 2020.
6. Net debt / (net debt plus shareholders funds). Net debt excludes lease liabilities presented as "Borrowings" in the Statement of Financial Position

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1H21 Overview

Mr Fredricson said, “Oil and LNG markets have continued to recover from the initial economic impacts of the COVID-19 pandemic led by a robust demand rebound in Asia. We have seen a significant increase in core earnings, reflecting higher realised oil prices and a sustained focus on reducing underlying costs, whilst a lower net debt position has contributed to a significant improvement in the company’s overall financial strength.

“Solid operational performance allowed PNG LNG to continue producing above nameplate capacity, despite curtailed volumes during the completion of a major planned maintenance program. Operated oil production grew by 3% from the first half of 2020 with the Moran field outperforming.”

“Our continued discipline towards capital management has bolstered our balance sheet. Introducing a level of commodity price hedging into our strategy reduces the company’s downside exposure to oil price volatility and, in the half, we were able to participate in the oil price upside above our hedged floor price of $55 per barrel.

“Oil Search’s strong safety performance through the first half of 2021 underscores our ongoing commitment to the safety and wellbeing of our people. We have not taken our eye off the ongoing risks of COVID-19 to our people, operations and communities and we continue to assess and adapt our protocols as circumstances require. Our proactive approach has been key to ensuring that our operations remain safe and reliable despite ongoing COVID-19 restrictions on the movement of people and resources.

“In support of our ambition to achieve net zero carbon emissions by 2050, we have implemented a carbon abatement program and commenced programs that aim to deliver a 30% reduction in GHG intensity across our operated facilities by 2030. Our commitment to sustainability for all stakeholders has been reinforced with the release of an updated HSES Policy and Manual; the launch of our Human Rights and Sustainable Communities Policies; and registration of our first Modern Slavery Statement. Together, these steps emphasise the central role of sustainability in our corporate strategy and underscore our ongoing commitment to public disclosure and transparency in reporting.”

Board and senior management

On 24 June 2021, Dr Bakheet al Katheeri resigned from the Board following major shareholder, Mubadala, reducing its shareholding in Oil Search.

On 19 July 2021 Oil Search’s Managing Director, Keiran Wulff, resigned and incumbent CFO, Peter Fredricson, was named Acting Chief Executive Officer. On 9 August 2021 Beth White was announced as EVP Group Finance (Acting), Sustainability & Technology.

Santos revised proposal

After an improved non-binding, indicative merger proposal was received in late July, a proposed 61.5 / 38.5 merger ratio was agreed with Santos Ltd on 2 August 2021. If the transaction is approved, Santos will acquire all Oil Search shares by exchanging 0.6275 new Santos shares for each Oil Search share at completion.

Subject to each party completing due diligence on the other and the parties entering into a binding Merger Implementation Deed, the intention of the Oil Search Board is to unanimously recommend that shareholders vote in favour of the revised Santos proposal. Any such recommendation will be subject to an independent expert concluding that the proposal is in the best interests of Oil Search shareholders, and to no superior proposal being received.

Due diligence is currently underway and the parties have commenced negotiations on a Merger Implementation Deed. Any Merger Implementation Deed would be subject to a number of conditions including Oil Search shareholder approval, PNG National Court approval and other regulatory approvals.

Mr Fredricson said, “Santos’ revised proposal presents Oil Search shareholders with an opportunity to maintain ongoing exposure to Oil Search’s portfolio of world-class assets as part of a larger merged group, which is expected to be an ASX20 entity and amongst the 20 largest global oil and gas companies.”

Papua New Guinea

Oil Search’s portfolio of high-quality assets in PNG continued to drive strong performance in the first half of 2021 and, across Oil Search operated assets, oil production increased slightly from the previous corresponding period.

PNG LNG gross throughput delivered an annual average run rate of 8.24 million tonnes per annum (MTPA) during the first half of 2021, representing 119% of the 6.9 MTPA nameplate capacity. This result was achieved despite a five-week planned shut-in during the second quarter, allowing for the successful completion of a major maintenance program.

Papua LNG continues to progress following the signing of a Fiscal Stability Agreement and the award of a five-year licence extension during the first half of the year. Supported by increasing alignment among stakeholders, the project is on track to enter FEED in 2022.

Negotiations on PRL3 (P’nyang), in which Oil Search holds a 38.5% interest, reached a milestone in August with the PNG Government and PRL3 operator announcing their intention to re-engage on the P’nyang project. The announcement advises that if the process goes well, a P’nyang Heads of Agreement could be signed with the aim to agree a Gas Agreement thereafter.

“PNG LNG remains a highly valued world class asset, with a leading operator. We are well positioned to maximise facility utilisation beyond 2030 and remain focused on delivering on a number of growth projects. In addition, our operated oil and gas production remains fundamental to the operation of PNG LNG and will support continued production well into the next decade,” Mr Fredricson said.

Alaska

In support of efforts toward FID, the current summer field program is nearing completion, with work focused on final preparation of the Pikka Phase 1 gravel roads and pads, initially installed in the winter of 2019/2020, for use during the next phase of construction. With the technical aspects of the Pikka project tracking well to schedule and the FEED phase of development nearing completion, Oil Search and its co-venture partner in Alaska are focused on ensuring appropriate risk allocation and funding is in place prior to taking FID. FID timing will be subject to the delivery of these strategic priorities as well as partner approvals. To this end, a range of funding options continue to be pursued, including the selldown of an equity interest, the sale of mid-stream infrastructure and other non-recourse debt funding options.

“Alaska represents a key component in the Oil Search growth strategy. Pikka is also poised to play an important role in improving Oil Search’s GHG emissions intensity. The Pikka Project is aligned with the objectives of the Paris Agreement and is positioned within the top quartile for global GHG performance with an expected GHG intensity that is on average 43% lower than other conventional onshore oil and gas developments[7]. The project is well progressed and positioned to move to FID when we achieve appropriate risk allocation and funding in alignment with our focus on maintaining discipline in capital allocation,” Mr Fredricson said.

7. Sources: 2020 Climate Resilience Addendum (Carbon Tracker (2020) Fault Lines, Fault-Lines_CTI_ report_Oct2020_2.pdf and Wood Mackenzie GHG Intensity Benchmark Tool (2021)

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Dividends

The Board declared an interim unfranked dividend of US3.3 cents per share for the first half of 2021 and dividends for the full year are expected to be within Oil Search's target payout ratio of 35 to 50% of core net profit after tax, as this is considered to be an appropriate framework for distributions to shareholders as well as retaining funds for growth.

Summary and outlook

Mr Fredricson said, "We are committed to delivering value to our shareholders and are engaging with Santos in relation to the proposed merger proposal whilst continuing to support the execution of our strategy in the event that we remain a standalone business. We are on track to meet our previously stated production and cost guidance and to deliver a strong 2021 full year result. We continue to take full advantage of the ongoing recovery in oil and condensate prices as benefits from increased contracted LNG prices flow into the second half of the year."

Mr Fredricson concluded, "While the first half of 2021 has been a challenging period for the business, our world class assets and outstanding management team provide a strong foundation for creating ongoing value for shareholders. Our resilient operations are expected to continue to deliver strong cash flows in years to come and we remain focused on commercialising our 2C resource base whilst appropriately managing our risks and remaining disciplined in our allocation of capital. We are focused on the management of costs across our operations as we continue to deliver on our purpose - delivering low cost, high value energy that meets society's needs".

All forward-looking statements are based on the assumption that there is no material change in market conditions and no significant COVID-19 outbreak affecting operations.

Presentation and webcast

A presentation of the 2021 Half Year Results and a live question and answer session will be held at 11:00am AEST on Tuesday, 24 August 2021.

Investors are encouraged to participate in this event by registering at www.oilsearch.com.

Accompanying documents

- OSH 2021 Half Year Report (Incorporating Appendix 4D)
- OSH 2021 Half Year Results Investor Presentation

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This ASX announcement was authorised for release by Oil Search Limited's Board of Directors.

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About Oil Search

Oil Search is a responsible energy company, with a proud history and strong heritage, that contributes to a sustainable future. Established in 1929, the organisation's purpose is to deliver low cost, high value energy that meets society's needs, and its ambition is to be the preferred energy company for all stakeholders.

With activities well supported by a clear hierarchy for allocating capital, prioritising sustaining capital and a strong, flexible balance sheet, Oil Search is a safe, low-cost, reliable business with a clear path to future growth.

Recognised for its proven capability to operate in challenging environments, Oil Search has a world-class resource base and a strong track record of working with communities and stakeholders. Sustainability is embedded across the Company and it aspires to set the standard for sustainable development.

Oil Search is listed on the Australian and PNG security exchanges (ticker: OSH) and its ADRs trade on the US Over the Counter market (ticker: OISHY).

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